

INVESTMENT POLICY STATEMENT

OF

THE CITY OF SAINT PAUL

Updated October 26, 2022

TABLE OF CONTENTS

I.	SCOPE AND PURPOSE.....	2
II.	CONTEXT.....	3
III.	STANDARDS OF CARE.....	3-4
IV.	AUTHORITY AND RESPONSIBILITY	4-8
V.	ADMINISTRATIVE AND REVIEW PROCEDURES	8-10
VI.	GENERAL INVESTMENT OBJECTIVES AND CONSTRAINTS	10-11
VII.	GUIDELINES FOR INVESTMENTS IN SPECIAL PROJECTS OR PROGRAMS.....	12
VIII.	COMPONENT PORTFOLIOS: OBJECTIVES AND AUTHORIZED INVESTMENTS	
	DAILY PORTFOLIO.....	12-13
	SHORT TERM PORTFOLIO	14
	INTERMEDIATE TERM PORTFOLIO.....	15-16
IX.	INVESTMENT MANAGER SELECTION.....	16-17
X.	INVESTMENT MANAGER TERMINATION	17

EXHIBIT A:MINNESOTA STATUTES CHAPTER 118A

EXHIBIT B:BENCHMARK DESCRIPTIONS

I. SCOPE AND PURPOSE

This Investment Policy Statement governs the investment portfolio (the “Portfolio”) of the City of Saint Paul (the “City”) including the assets of the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, Trust Funds, Agency Funds, Internal Service Funds and any new fund created by the City Council and the Mayor.

This Investment Policy Statement (“IPS”) is intended to serve the following purposes:

- A. Provide written documentation of expectations regarding the investment of City assets.
- B. Reflect investment objectives, guidelines and standards that are consistent with the financial objectives of various City funds.
- C. Define and assign responsibilities for investment decisions and actions.
- D. Establish criteria and benchmarks for the ongoing evaluation of performance results and policy compliance.
- E. Establish a framework for review and revision of investment policies as warranted by changing circumstances.

This policy supercedes all previous City investment policies and shall be reviewed on an annual basis by the Director of the Office of Financial Services. Any significant revisions shall be approved by the City Council and the Mayor. Any exceptions to this policy must be approved prior to trade execution by the Director of the Office of Financial Services, and reported to the Mayor and City Council.

II. CONTEXT

The Portfolio provides funding for current and future operating expenses, a reserve to cover unplanned shortfalls and investment income to support the activities of the City.

The Portfolio is managed in three components (“Component Portfolios”) as follows:

- A. **Daily Portfolio:** The “daily” component (“Daily Portfolio”) represents current operating funds on which draws are made frequently, requiring daily liquidity and preservation of principal. The Daily Portfolio is managed internally by the Cash Manager.

- B. **Short Term Portfolio:** A short-term component (Short Term Portfolio”) serves as a cushion to provide liquidity for possible shortfalls in the Daily Portfolio. Draws against the short-term portfolio are expected to be infrequent. The Short Term Portfolio is managed internally by the Cash Manager.

- C. **Intermediate Term Portfolio:** The balance of the Portfolio represents the intermediate term component (“Intermediate Term Portfolio”) which serves as a reserve for unplanned shortfalls. In general, the Intermediate Term Portfolio is not expected to experience withdrawals. A portion of the Intermediate Term Portfolio is managed internally by the Treasury Manager and the balance is managed by external managers.

III. STANDARDS OF CARE

A. Prudence

The standard of prudence to be used by investment officials shall be the “prudent investor rule” and shall be applied in the context of managing the overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the purchase and sale of securities are carried out in accordance with the terms of this policy.

Investments shall be made with judgment and care under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income.

B. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. All investment officials shall disclose any material interests in financial institutions with which they conduct business. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

IV. AUTHORITY AND RESPONSIBILITIES

The City of Saint Paul's Administrative Code, Chapter 2, Article 1, Section 2.02, as amended, empowers the Director of the Office of Financial Services, which includes a Treasury Section, with the investment responsibility for the City. Responsibility for the operation of the investment program is delegated to the Treasury Manager, who shall act in accordance with written procedures and internal controls for the operation of the investment program consistent with the IPS. The Treasury Manager is assisted by the Cash Manager. No person may engage in an investment transaction, except as provided under the terms of this policy.

A. Director of the Office of Financial Services

The duties and responsibilities of the Director of the Office of Financial Services under this IPS are to:

1. Recommend to the City Council adoption and amendment of the IPS.
2. On a quarterly basis, review and approve the recommendations of the Treasury Manager regarding:

- a. Compliance of investments with the IPS
- b. Performance results
- c. Changes in investment managers
- d. Sufficiency of funds in the Portfolio to satisfy planned expenditures.

B. Treasury Manager

The duties and responsibilities of the Treasury manager under this IPS are to:

1. Invest the internally-managed portion of the Intermediate Term Portfolio.
2. Monitor the performance of the total Portfolio and each separately-managed portfolio against benchmarks established in the IPS and report to the Director of the Office of Financial Services and the City Council.
3. Maintain a projection of monthly cash inflows and outflows (“Cash Flow Projection”) for determining the appropriate minimum and maximum range to maintain in the Daily and Short Term Portfolios.
4. Review the allocation of the Portfolio among the Component Portfolios and make any adjustments indicated under this IPS.
5. Review the investment activity reports for the Daily and Short Term Portfolios prepared by the Cash Manager.
6. Review compliance of the Portfolio, as well as the individual investment managers/mutual funds, with IPS standards and guidelines and report any noncompliance to the Director of the Office of Financial Services.
7. Make recommendations to the Director of the Office of Financial Services regarding additions, deletions or changes in investment managers, mutual funds, custodians, consultants and other service providers.
8. Review all investment costs and expenses and report to the Director of the Office of Financial Services, the Mayor and the City Council on an annual basis.
9. Develop and maintain the administrative procedures manual (“Administrative Procedures Manual.”)

C. Cash Manager

The duties and responsibilities of the Cash Manager under this IPS are to:

1. Invest the assets of the Daily Portfolio and the Short Term Portfolio in accordance with IPS standards and guidelines.
2. Prepare cash flow projections to determine daily excess cash to invest in short term securities or money market funds for operating needs.
3. Obtain competitive bids and offerings of securities to be purchased or sold.
4. Verify investment activity in the bank accounts.
5. Maintain and balance the Treasury subsidiary investment ledger.
6. Verify broker confirmations to the subsidiary investment ledger.
7. Allocate interest earnings to the accounts participating in the pooled investment program.
8. Report investment activity to the Treasury Manager.
9. Prepare annual reports in compliance with GASB standards.

D. Investment Consultant

An Investment Consultant may be retained by the City to provide investment advice and assistance regarding the investments. Specific responsibilities of the Investment Consultant may include:

1. Assist with the development and periodic review of investment policies and procedures.
2. Conduct searches for investment managers or mutual funds.
3. Quarterly, measure and evaluate performance results for the total portfolio and for each separately-managed portfolio.
4. Evaluate compliance of investments with IPS guidelines and report results to the Treasurer.
5. Analyze investment expenses and negotiate any investment management or custodial fees as requested.

6. Provide other information or reports as requested by the Treasury Manager, the Director of the Office of Financial Services, the Mayor or the City Council.
7. Prepare Investment Manager Guidelines.

E. Investment Managers

Any investment manager retained by the City assumes the following responsibility as a fiduciary of the funds:

1. Compliance with the stated objectives and guidelines herein, as well as Minnesota State Statutes.
2. Written acknowledgment of the IPS and specific account guidelines (“Manager Guidelines”) which reflect the investment manager’s strategy, discipline and performance benchmark.
3. Quarterly statement for the funds under management showing the market value and cost basis of individual holdings as well as the following information relative to the investment manager’s designated portfolio performance benchmark:
 - a. Performance
 - b. Duration (to absolute and to worst)
 - c. Yield to Maturity
 - d. Asset/Sector Distribution
 - e. Average Maturity (absolute and to worst)
 - f. Average credit quality

F. Custodian Bank

The custodian bank (“Custodian”) shall assume the following responsibilities:

1. Safekeeping of Securities: Hold all fund deposits in the appropriate accounts, and provide highly secure safekeeping of securities to minimize the risk of loss due to theft, fire or accident.

2. Manage a securities lending program by lending securities to approved borrowers, arranging the terms and conditions of loans, monitoring market values of the securities lent and the collateral received, reporting earnings and directing the investment of the cash collateral.
3. Settlement of Trades: All trades, where applicable, will be executed delivery vs. payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian, as evidenced by safekeeping receipts.
4. Collection of Income: Provide for receipt and prompt crediting of all dividend and interest payments received as a result of the Portfolio holdings. Monitor income receipts to ensure that income is received when due and institute an investigative process to track and correct late or insufficient payments, including reimbursements for any interest lost due to custodian error.
5. Reporting: Providing monthly reports showing individual asset holdings with sufficient descriptive detail to include units, unit price, cost, market value, cusip number (where available) and any other information requested by the City.

V. ADMINISTRATIVE AND REVIEW PROCEDURES

The following administrative and review procedures are intended to control risk and ensure policy compliance:

- A. A quarterly report prepared by the Treasury Manager will be provided to the Director of the Office of Financial Service, the Mayor, the City Council and the Board of Water Commissioners.
- B. An annual review of investment operations performed by the State Auditor.
- C. A desk procedures manual (“Administrative Procedures Manual”) will be developed and maintained to include legal authority, policies, job responsibilities, processing investment transactions, eligible security dealers and financial institutions, and securities descriptions.

D. Review Procedures for Performance Monitoring and Policy Compliance:

1. Review of Policy: At least annually, the policies, objectives and guidelines set forth in this document will be reviewed by the Treasury Manager and the Director of the Office of Financial Services. Any changes will be brought to the Mayor and City Council for approval. Key occurrences that could result in a recommendation for policy modification include:
 - a. Significant changes in the Cash Flow Projections or liquidity needs that may warrant policy change(s).
 - b. Changes in long-term fixed income market trends and patterns that are materially different than those assumptions used to set the policy (see Exhibit B).
 - c. Significant growth (or reduction) in the assets of the Portfolio.

2. Review of Investment Results: The Treasury Manager will measure and evaluate performance at least quarterly with the external managers. The elements to be included in these reviews are as follows:
 - a. Evaluation of the total time-weighted return for quarterly and annual periods of the Total Portfolio, each Component Portfolio, and each separate account against benchmarks established in the IPS and the Manager Guidelines.
 - b. Evaluation of risk adjusted returns, using Standard Deviation as a measure of risk, relative to the respective Performance Benchmark(s).
 - c. Evaluation of yield for quarterly and annual periods relative to the respective Performance Benchmark(s).
 - d. Compliance of investments with the guidelines and standards in this IPS for diversification and quality, as well as with statutory guidelines.

- e. Review of the balances in the Component Portfolios for sufficiency in relation to the Cash Flow Projection.
- 3. Review of Investment Managers: The Treasury Manager will meet with the Investment Managers annually to review strategy and confirm that the managers continue to satisfy Investment Manager selection criteria in this IPS.
- 4. Review of Investment Fees and Expenses: The fees and expenses associated with the investment program will be reviewed at least annually to ensure they are reasonable and competitive.

VI. GENERAL INVESTMENT OBJECTIVES, CONSTRAINTS AND GUIDELINES

The goals of the City for the Portfolio are to preserve financial assets for future operating expenses, maintain reserves to fund unplanned shortfalls and generate income to support the activities of the City. The investment objectives in support of these goals are as follows:

- A. Safety: Safety of principal, by mitigating credit risk and interest rate risk, is the foremost objective of the investment program.
 - 1. Credit Risk: Credit risk (the risk of loss due to the failure of the security issuer or backer) will be minimized by:
 - a. Limiting investments to issues of (or backed by) the U.S. Government, its agencies or instrumentalities, States and Municipalities.
 - b. Using only those financial institutions, broker/dealers, intermediaries and advisers approved by the City.
 - c. Diversifying investments so that potential losses on individual securities of a single issuer will be minimized.

2. Interest Rate Risk: Interest rate risk (the risk of a loss in market value due to general changes in interest rates) will be controlled through:
 - a. Investing operating funds primarily in shorter term securities, money market mutual funds or similar investment pools (matching maturities with cash requirements).
 - b. Establishing maximum guidelines for portfolio duration

- B. Liquidity: The Portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated, including matching maturities with cash requirements. However, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary resale markets.

- C. Return: The investment portfolio shall be managed with the objective of attaining a rate of return throughout budgetary and economic cycles consistent with the objectives of principal preservation, liquidity (in A and B above) and avoidance of realized losses. Return on investment is of secondary importance compared to safety and liquidity. The total annualized return for each Component Portfolio is expected to exceed the total return of the performance benchmark established in this IPS for each Component, while maximizing the portion of return derived from current income. The return for the Total Portfolio is expected to exceed the total return on the Composite Benchmark (representing the dollar-weighted composite of the three Component Portfolio benchmarks).

- D. Loss Avoidance: Investment transactions shall seek to ensure that capital losses are avoided. In the event of a need to liquidate any security prior to maturity, consideration shall be given to selecting securities that avoid or minimize the realization of capital losses. Exceptions due to credit deterioration may be acceptable if such transactions were executed under guidelines listed herein and notification is made to the Director of the Office of Financial Services, the Mayor and City Council.

VII. GUIDELINES FOR INVESTMENTS IN SPECIAL PROJECTS OR PROGRAMS

The City, from time to time, may authorize projects or special purpose financings to further a particular social or economic development program through the use of City funds as capital, collateral or financing. A typical program may entail depositing funds at local banks to support neighborhood lending or low-income housing. To carry out such projects or programs, City funds may be allocated to investments in local banking institutions or other investments that otherwise fall outside of this policy statement. The Treasury Manager is authorized to implement investment strategies in support of such projects or programs upon direction from the Director of the Office of Financial Services, with notification made to the City Council. All investments purchased under such programs must comply with Minnesota Statutes 118A, and investments that fall outside of this policy's portfolio weighting constraints require notification made to the Mayor and City Council prior to trade execution.

VIII. COMPONENT PORTFOLIOS: OBJECTIVES, CONSTRAINTS AND AUTHORIZED INVESTMENTS

A. Daily Portfolio: The Daily Portfolio provides liquidity for operating expenses and other expenditures reflected in the annual Cash Flow Projection maintained by the Treasury Manager. The objectives are preservation of principal, liquidity to meet daily needs and a competitive yield as measured by the performance benchmark for the Daily Portfolio.

1. Minnesota Statutes: Investments shall satisfy Minnesota Statutes governing municipal investment, specifically Minnesota Statutes Chapter 118A, a copy of which is attached as Exhibit A.
2. Time Horizon: The Daily Portfolio is intended to fund daily withdrawals as well as planned withdrawals within a 12-month period.
3. Liquidity: Investments must provide liquidity as needed on a daily basis.
4. Risk Tolerance: Investments must satisfy liquidity requirements without risk of principal loss.

5. Return: Investments should generate total returns that are competitive within the parameters (above) for liquidity and risk tolerance.
6. Performance Benchmark: 30-day T Bill.
7. Authorized Investments and Guidelines: Subject to Minnesota Statutes Chapter 118A, the following investments are authorized:

Weighting Constraints

Commercial Paper	Up to 100%	Maximum of \$5MM in a single issuer
Bankers Acceptances	Up to 50%	Maximum of \$5MM in a single issuer
Certificates of Deposit		Up to \$10MM* Collateralized at 110%; one year maximum term
Repurchase Agreements	Up to 100%	A Master Repurchase Agreement must be executed with the counter party. 102% collateral required.
Treasury Bills	Up to 100%	
Agency Notes	Up to 100%	No more than 20% of total portfolio per agency
Money Market Funds	Up to 100%	S.E.C. Rule 2a7
*The maximum holding of CDs in the total portfolio, including the daily and intermediate, shall not exceed \$10 million.		

8. Diversification: Subject to the guidelines in A 7 (above), the Daily Portfolio should be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific issuer, maturity or class of securities.
9. Commercial Paper: At the time of purchase, securities from a single issuer shall not exceed 5% (or the lesser of \$5MM per issuer) of the total daily portfolio and shall be rated the highest credit quality by two of the following rating agencies: Standard and Poor (A-1), Fitch (F1), and Moody's (P-1). In the event that the 5% issuer guideline is exceeded through trading activities, written notification shall be made to the Director of the Office of Financial Services and made available to the City Council and Mayor.

B. Short Term Portfolio: The Short Term Portfolio serves as a cushion to cover operating expenses or unplanned shortfalls that occur in the Daily Portfolio. The investment objectives are principal preservation, liquidity to fund cash outflows when needed and a return that exceeds the performance benchmark established in this IPS.

1. Minnesota Statutes: Investments shall satisfy Minnesota Statutes governing municipal investment, specifically Minnesota Statutes Chapter 118A, a copy of which is attached as Exhibit A.
2. Time Horizon: The Short Term Portfolio is intended to fund occasional shortfalls in the Daily Portfolio. Since the potential outflows are expected to be infrequent, the time horizon for investments is between one and three years.
3. Liquidity: Investments must provide liquidity as directed.
4. Risk Tolerance: Investments should satisfy liquidity requirements without risk of principal loss.
5. Duration: To satisfy the parameters for liquidity and risk tolerance (above), the maximum duration of the portfolio is 130% of the benchmark duration.
6. Return: The total return should exceed the total return of the Performance Benchmark, with emphasis on current income.
7. Performance Benchmark: Lehman 1-3 Year Government Index
8. Authorized Investments and Guidelines: Subject to Minnesota Statutes Chapter 118A, the following investments are authorized:

Weighting Constraints

U.S. Treasury Securities	Up to 100%	Maximum maturity of 36 months
Agency Securities	Up to 100%	Maximum maturity of 36 months

9. Diversification: Subject to the guidelines in B 8 (above), the Short Term Portfolio should be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity.

C. Intermediate Term Portfolio: The Intermediate Term Portfolio serves as a reserve to fund unplanned shortfalls or capital needs. The investment objectives are principal preservation, liquidity to fund cash outflows that may be unplanned and a total return that exceeds the Performance Benchmark.

1. Minnesota Statutes: Investments shall satisfy Minnesota Statutes governing municipal investment, specifically Minnesota Statutes Chapter 118A, a copy of which is attached as Exhibit A.
2. Time Horizon: The Intermediate Term Portfolio serves as a reserve for unplanned shortfalls or capital requirements. Withdrawals are generally not anticipated; therefore, the time horizon for investments is longer than three years.
3. Liquidity: Investments must provide liquidity as needed.
4. Risk Tolerance: Investments should satisfy liquidity requirements with the objective of minimizing any realized principal loss.
5. Duration: To satisfy the parameters for liquidity and risk tolerance (above), the maximum duration of the portfolio is 125% of the benchmark duration.
6. Return: Investments should generate total returns that exceed the total return of the Performance Benchmark, with an emphasis on yield maximization.
7. Performance Benchmark:
External Managers: 80% Lehman Intermediate Government Index / 20% 15-year MBS Index
Internal Portfolio: 100% Lehman Intermediate Government Index
8. Authorized Investments and Guidelines: Subject to Minnesota Statutes 118A, the following investments are authorized:

Weighting Constraints

U.S. Treasury Securities	Up to 100%	
Agency Securities	Up to 100%	No more than 20% in a single issue
Structured Agency Notes	Up to 80%	No more than 20% in a single issue
Agency Pass Throughs	Up to 40%	No more than 10% in a single issue
Agency CMOs	Up to 20%	No more than 5% in a single issue
Municipal Securities	Up to 25%	No more than 5% in a single issue
Certificates of Deposit		Up to \$10 MM* Collateralized at 110%; three year maximum term
*The maximum holding of CDs in the total portfolio, including the daily and intermediate, shall not exceed \$10 million.		

9. Diversification: Subject to the guidelines in C 8 (above), the Intermediate Term Portfolio should be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific issuer, maturity or class of securities.

D. Bond Proceeds Portfolio: The Bond Proceeds Portfolio serves as a reserve fund to receive and invest proceeds associated with the sale of debt. The strategy for the bond proceeds portfolio is to pro-actively invest bond proceeds to the anticipated expenditure schedule for the projects financed as updated from time-to-time.

1. Time Horizon: Since most bond proceeds are expended within a few months to three years of issuance, the maturities for securities in this portfolio may, or shall, be less than three years.

IX. SELECTION OF EXTERNAL INVESTMENT MANAGERS FOR INTERMEDIATE TERM PORTFOLIO

Criteria for selection of Investment Managers and Mutual Funds are:

- A. Adherence to a clearly-articulated investment strategy and discipline.

- B. A minimum five-year performance track record: A Manager's performance will be compared to the appropriate benchmark designated in this IPS. Performance will be evaluated on a risk-adjusted basis considering annual returns, cumulative annualized returns, standard deviation of returns and a measure of performance in down-market cycles.

- C. History of the firm: Organizational structure, assets under management, clientele in the municipal and government sector and the tenure of key portfolio manager(s) responsible for the performance track .

D. Negotiated Fees

E. Firm Insurance.

F. Contributions and distributions can be accommodated without materially affecting performance.

G. Ability to comply with Minnesota Statutes Chapter 118A.

XI. TERMINATION OF EXTERNAL INVESTMENT MANAGERS FOR THE INTERMEDIATE TERM PORTFOLIO

A. Investment managers will be reviewed for possible replacement on an ongoing basis. Reasons for replacement may include, but are not limited to, the following:

1. Failure to outperform the designated benchmark on a risk adjusted basis, after fees, over the investment Time Horizon or a market cycle.
2. Significant under-performance relative to the designated Performance Benchmark over a two- to three-year period or a market cycle.
3. Change in firm ownership or loss of key personnel.
4. A real or perceived change in investment style or discipline.
5. A violation of the standards and guidelines in this IPS or the Manager Guidelines.

Exhibit B Benchmark Descriptions

30 Day Treasury Bill

Definition: Returns are provided by the Federal Reserve.

Lehman Brothers 1-3 Year Government Index

Definition: Securities in the U.S. Government Index with a maturity from 1 up to (but not including) 3 years.

Lehman Brothers 15 Year Mortgage Backed Securities Index or

Merrill Lynch 15 Year Mortgage Backed Securities Index

Definition: Pass-through securities with an original maturity of 15 years.

Lehman Brothers Intermediate Government Index

Definition: Securities issued by the U.S. Government (Treasury and Agency securities) having a maturity from 1 up to, but not including 10 years.

Return and Risk (1993 to 2002)

